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DRAFT REPORT OF THE TRADE AND DEVELOPMENT BOARD ON THE FIRST PART OF ITS THIRTY-NINTH SESSION

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INTRODUCTION

1. In his opening statement, the President observed that the current world economic recession was the deepest since the Second World War and was proving to be exceptionally resilient in the industrialized countries. In Eastern Europe the transition process was proving to be very costly and much longer than expected. In most developing countries growth had remained slow and in general development prospects were bleak. Against this background the Cartagena Commitment had given a new institutional content to UNCTAD. In Cartagena, UNCTAD had come of age. The ideological overtones of the post-war era had receded and negotiations and dialogue marked by unilateral demands and defensive reactions had given way to common analysis, convergence of views and a consequent potential for genuine cooperation. But this progress had not changed either the nature or the dimension of the development needs of the developing countries, whose problems remained in all their magnitude. If the developing countries were unable to grow, the cost to the developed countries would take the form of higher immigration, greater threats to world peace and a worsening environment. In the new dialogue, member States should refrain from attempting to paper over their differences as they had done in the past and they should state clearly their divergences as they arose in order to build their future consensus.

2. The high quality analytical work in the Trade and Development Report 1992 (the TDR) testified to the effectiveness of UNCTAD as an instrument of international economic cooperation and as an agent of change in support of development. The report had correctly forecast two or three months in advance what would become of the international monetary situation if unduly high interest rates were maintained. He expressed the hope that other pessimistic assessments in the report would not come true.

3. The level of debt service in many developing countries continued to be a serious obstacle to sustained and sustainable development. Urgent action was therefore necessary to alleviate debt burdens. In many countries, pressure to export more in order to service debts and finance imports had led to over-exploitation of natural resources which could alleviate payments problems only in the short term. Developing countries were also suffering from declining commodity prices and demand for their manufactures. The successful conclusion of the Uruguay Round was therefore crucial, as were structural adjustments and better coordination of monetary and fiscal policies in the major industrialized countries.

4. As the public sector in developing countries was going through a serious crisis, it was timely that the secretariat had taken up the question of public enterprise reform. Privatization was certainly an important option for reform, but for those enterprises that would have to remain under public ownership restructuring was of great importance as well.

5. In the new era of economic development called for in the Cartagena Commitment it was in the interest of all countries to chart a new course in a revitalized UNCTAD. It was the irony of the times that unparallelled scientific and technological progress coexisted with so much poverty, deprivation and misery for so large a part of humanity, posing a direct threat to world peace and security. The creation of a new international order seemed to be a long and difficult process beset with economic recession, starvation, ethnic struggles, civil wars, human rights violations, racism, terrorism and the collapse of political orders all over the world. Turning chaos into order called for new rules, new values and new ideas. Good governance, both internationally and domestically, was the key to success. A revitalized UNCTAD had an important role to play in this respect and the current session of the Board could set a tone of flexibility and innovation for future sessions.

6. In his introductory statement, the Secretary-General of UNCTAD focused on a number of conclusions stemming from the Trade and Development Report, 1992. The world economy had been experiencing uncoordinated, disparate and overall weak growth in the past three years. Having outlined the circumstances which had led up to the current recession, he noted that it was the first in the post-war period in which debt deflation had played the dominant role. Accelerated or relatively high growth rates in a number of developing countries had helped shore up world economic activity, but these countries could not keep swimming against the tide. Most other developing countries throughout the world were performing poorly in the face of weak export markets and sluggish commodity prices, especially the African countries. As for the countries of Central and Eastern Europe, the difficulties inherent in introducing viable market and State mechanisms had taken a severe toll on all sectors of their economies.

7. All of this suggested that the global economy was at an impasse. Free-market reforms and democratization could hardly succeed without a global economic recovery, but such a recovery called for a coordinated policy

response by the leading industrialized economies. They should spur demand at home by increasing spending on social overheads and infrastructure. Stronger action was also needed in Western Europe to bring down short-term interest rates towards the levels currently prevailing in the United States. Moreover, to sustain recovery, long-term interest rates needed to fall and to be kept low. As for direct measures to accelerate growth in developing countries, the key factor again was finance. Strengthening the flow of long-term capital to developing countries and countries in transition would raise investment and income there, as well as enlarge the export markets of industrialized countries. Renewing SDR allocation could also be a very effective response to global credit shortage. For most developing countries, the amounts of finance available were inadequate, and the terms of their re-entry into international capital markets were still onerous. With regard to official bilateral debt, the Trinidad terms were a good benchmark for debt reduction, but they would need to be buttressed by additional country-specific measures. There was need to review further the scale and modalities of debt reduction for the poorest countries, in order to remove their debt overhang once and for all.

8. In recent years many developing countries had adopted liberal trade regimes, but this action had been matched by more, not less, protectionism in developed countries. A successful, balanced conclusion to the Uruguay Round in which this and other shortcomings would be corrected was therefore in the vital interests of all countries. As for the domestic policies pursued by the developing countries themselves, the idea that one single model was valid for all the diverse development situations was open to question. For example, protection in some form was not necessarily inimical to export success; while the costs of policy mistakes could be high, selective policy intervention had proved helpful when nascent industries needed time to develop a competitive edge. Trade liberalization should therefore be introduced with due care, protection be reduced in stages, and a phased approach adopted whereby macro-economic stabilization preceded structural reforms.

9. Turning to public enterprises, he observed that they had performed poorly in the 1980s and radical reform could no longer be postponed. Among the options for reform were privatization, restructuring and liquidation, but no single answer was applicable in all circumstances. While privatization was often desirable and feasible, many enterprises would inevitably remain under public ownership, and various countries were seeking to remedy the inefficient

parts of the public enterprise sector in ways other than divestiture. Long-term corporate planning and management reform including the refashioning of pricing and employment policies were especially important. So was the need to enhance efficiency by increasing the role of competition through, for instance, the liberalization of entry into activities hitherto restricted to public enterprises. In the end, no guidelines would guarantee greater efficiency in the presence of clientelism, political irregularities and indifferent management at the national level.

10. On the issue of sustainable development, he recalled that the United Nations Conference on Environment and Development (UNCED) had confirmed UNCTAD's important role in the implementation of Agenda 21. UNCTAD could play a dynamic and effective role in such areas as how to make sustained growth and environmental protection mutually supportive, particularly in developing countries; how best to make policies on trade, environment and development mutually reinforcing, and to integrate the environmental dimension into policies in the interrelated areas of trade, commodities, technology and development finance; promoting an integrated approach to poverty alleviation in the context of meeting environmental concerns and achieving sustainable development; fostering economic behaviour consistent with sound environmental management, taking into account the potential role of the enterprise sector, particularly in developing countries; and examining and advising countries on how best to integrate development concerns in both the formulation and implementation of internationally agreed objectives relating to the environment.

11. Having described the generally poor performance of the least developed countries in recent years, he recalled the main recommendations of the Cartagena Commitment with regard to the LDCs, in particular that the Board review and revise upwards the commitments in the Programme of Action regarding ODA targets and levels in order to provide for the additional resource needs of the countries newly included in the LDC category. Another such recommendation for external support related to the alleviation of the external debt burden of the least developed countries. The Conference had also wished to see the Uruguay Round provide for a significant improvement in access to markets for the LDCs' exports, as well as the strengthening of GSP arrangements and compensatory financing schemes in their favour.

12. Finally, having outlined the concepts which underlay the United Nations New Agenda for the Development of Africa in the 1990s, he said that the task of the current session of the Board was to take full measure of the main elements of the New Agenda, assess its implications for UNCTAD's work, and identify areas in which UNCTAD could make an early contribution. In the view of the secretariat, UNCTAD's work should focus in the first instance on population, development and environment; foreign direct investment; regional integration; and technical cooperation.

13. The spokesman for the Group of 77 (Pakistan) observed that, despite the unprecedented changes in the political, social and economic conditions of many countries in the past two years, the developing countries were still struggling with rapidly rising populations, declining export income, increased dependence on food imports, rising overseas debt and greatly reduced capital flows, a steady erosion of the existing capital stock, continuing weaknesses in human resources and the application of science and technology, and major environmental deterioration. Trade restrictions, among other negative factors, had reduced developing countries' GNPs by 3 per cent, resulting in an annual loss of $75 billion. The phasing out of the Multi-Fibre Arrangement could increase the value of the exports of developing countries by about $24 billion a year. Developed countries were now more protectionist than they had been 10 years ago, and exports of developing countries were affected by non-tariff barriers. In those areas where developing countries had a competitive advantage, as in labour-intensive manufactures and the export of unskilled labour, the market rules were often changed to prevent open and free competition.

14. He argued that current trends towards regionalism should be channelled in such a way as to strengthen world exchanges, and trade blocs should be constituted as poles of trade development. At present, global markets were neither free nor efficient and the developing countries were finding it difficult to exploit fully the potential of these markets. In line with the Cartagena Commitment, UNCTAD should identify specific topics for each part of the regular sessions of the Board, the analysis of which should facilitate truly open markets and the free flow of capital, labour and goods and help equalize economic opportunities for all.

15. The Group of 77 had seen with concern that the recent economic performance of the least developed countries as a group had been dismal and that their short-term economic outlook has worsened since the Paris Conference. It was imperative that the economic and political reform efforts undertaken by the least developed countries themselves be fully supported by their development partners, particularly through an increase in external resource flows, urgent and decisive reduction of the LDCs' debt stock and debt-servicing burden, and improved market access for their exports. In the light of this, and in view of the increase in the number of least developed countries, the Group of 77 hoped that the Board would now be able to agree on appropriate adjustments for the commitments made in the Programme of Action in respect of targets and levels of ODA.

16. Trade liberalization undertaken by developing countries in the 1980s and early 1990s should be matched by a reversal of protectionism in the developed countries. The final package to be agreed on in the Uruguay Round should take into account the particular interests of developing countries and the LDCs. If developing countries were now to trade on an equal basis, they would need massive investments in all areas and the acquisition and mastery of new technology. Moreover, every effort should be made to secure the success of the Second Round of the GSTP negotiations.

17. Turning to the debt crisis, he pointed out that total long-term debt of developing countries had reached $1,000 billion by the end of 1991, over half of which was owed to official creditors. Low lending to developing countries by banks, the large number of rescheduling negotiations still under way, and unfavourable costs and terms of insurance for financing imports indicated the difficulties faced by these countries. IMF should be more flexible with respect to arrangements for obtaining Paris Club rescheduling. Furthermore, recovery and growth prospects in the developing countries should be helped by reducing real interest rates from their current high levels and by action on the part of the developed countries to raise their own level of saving.

18. It was no doubt true that many public enterprises in developing countries had suffered from bad management and lack of effective systems of accountability and control. In his view, operational decisions should be left to the management, but the government should exercise control by monitoring outcomes. As pointed out in the TDR, the close relation between the performance of public and private enterprises was important.

19. With regard to the follow-up work to be carried out by UNCTAD in the wake of the United Nations Conference on Environment and Development, the Group of 77 reiterated its position that the work on sustainable development should be conducted in a sessional committee of the Trade and Development Board, with a possible transition at a later stage to discussion in a Standing Committee, given the importance of the issue.

20. The item on structural adjustment for the transition to disarmament and its implications for world economic growth and development was another important issue and it was the hope of his Group that consultations on this issue would lead to the establishment of the ad hoc working group for this purpose.

21. In conclusion, he stated that the future role of the developing countries in UNCTAD would depend on how the Cartagena Commitment and the terms of reference of the newly established bodies were translated into work programmes, and whether experts and policy makers from developing countries could participate in a serious dialogue in those bodies that could lead at some point to national and international policy decisions.

22. The representative of the United Kingdom, speaking on behalf of the European Community and its member States, said that this was a crucial point in the history of UNCTAD, as the international community strove to put into practice what had been agreed upon in Cartagena, against a background of unprecedented financial stringency in the whole United Nations system. He congratulated the secretariat on the TDR 1992, which was a more tightly focused and shorter report than in previous years. There was much in the report which the Community could agree with, although there were areas where it took issue with the secretariat's assessment.

23. Regarding the world economic situation, described in Part One of the TDR, the current picture for the Community was uncertain, with weak growth in 1992 that was likely to improve in 1993. The world outlook was similar. Increasingly, there were signs of global economic recovery, and all trade partners must work together to encourage this recovery and increase growth. One factor that would improve economic prospects for all countries would be a successful conclusion of the Uruguay Round. The Community would make every effort on its side to reach agreement before the end of 1992, since an open multilateral trading system reinforced by rules and discipline accepted by all concerned was essential for world economic growth. He was encouraged to see

from the TDR figures that current economic prospects for developing countries were significantly better than for the world as a whole, with GDP growth for developing countries cited at 4.7 per cent in 1992 and 4.9 per cent in 1993. This improved growth performance seemed largely to reflect improvements in domestic policy approaches in many developing countries. In this regard, effective regional cooperation could bring significant economic benefits. In some countries, additionally, structural programmes underpinned above-average performance. This demonstrated the importance of appropriate national policies. Mobilization of domestic resources remained the single most important factor in generating development finance. Foreign direct investment was also important, providing non-debt-creating funding as well as technical know-how, training, management expertise and development of export markets. Creating the right conditions to attract foreign direct investment should therefore be a high priority for developing countries.

24. The Community had noted with interest that, according to secretariat projections, while growth for developing countries as a whole was expected to be substantial during the rest of the decade, per capita income in the least developed countries would fail to rise in the 1990s. Active national and international consideration of ways to improve on this forecast were required. Factors such as domestic policies, availability of finance, demographic changes, the alarming problem of AIDS and environmental problems could have a substantial influence on prospects. For many developing countries, particularly the least developed, official development assistance would continue to play a key role in their development. The Community countries would continue to play their role here too. Their ODA would continue to be directed towards the poorest countries. Poverty, population policy, the environment, education, health, the role of women and the welfare of children merited special attention. They would support in particular those countries that undertook credible efforts to help themselves through appropriate economic policies and good governance.

25. Welcoming the section on reforming trade policies in Part Three of the TDR, which he considered to be particularly valuable, he said that the Community did not, however, share the view that there was only a weak correlation between trade liberalization and successful export development. This was a complex issue and particular circumstances would of course affect development in different countries. But Table 25 showed that countries with

relatively liberal trade regimes enjoyed better GDP growth and more rapid export growth than those which had had higher levels of protection over the periods considered. Many developing countries had liberated their trade regimes over the past few years, and this was having a beneficial effect on world development as a whole. Furthermore, it seemed that higher tariffs were less likely to have adverse effects on economic performance and development than were quantitative restrictions. And liberalizing measures could be inserted through binding into the multilateral system, so that countries could claim benefits through such arrangements for their own liberalization, and similarly gain from the liberalization of others.

26. The study on reforming public entities had some interesting points. The Community would have wished, however, to see the TDR bring out more clearly the widespread acceptance of the importance of the market economy, as evidenced by the considerable use of privatization within structural adjustment programmes.

27. In the past year there had been substantial improvement in Paris Club rescheduling practices, especially of course the introduction of enhanced concessional treatment for the poorest and most indebted countries following the implementation of the Trinidad Terms, but improvements could still be made in the terms offered, including an increase in the debt reduction available and earlier action on the stock of debt.

28. With regard to sustainable development, UNCTAD certainly had a contribution to make in the follow-up work emerging from UNCED, but it was necessary to see the outcome of the General Assembly discussion on the overall institutional framework for sustainable development before making too detailed decisions on what UNCTAD should do in this area. The Community welcomed the agreement reached at the first executive session of the Board that sustainable development should continue to be considered in the Board itself.

29. In all its discussions, the Board should bear in mind of course the critical financial situation of the United Nations. In line with the restructuring process currently taking place in the United Nations, the Board must be realistic in assigning activities to UNCTAD in order to keep within the existing budget. The best way of holding on to the resources currently allocated was to demonstrate efficient and effective use of those resources.

30. The Community countries considered that an active relationship and dialogue with the developing countries was a fundamental condition to overcome

the disparities and gaps which still divided the populations of the world. At the same time they reaffirmed the view that the promotion and safeguarding of human rights, pluralistic democracy and the rule of law were an essential element in international relations and therefore one of the cornerstones of their cooperation with the developing countries. The Community and its member States were playing and would continue to play a major role in all fields of cooperation and development.

31. The representative of China expressed his delegation's appreciation for the work done by the secretariat in the TDR which gave a detailed analysis of the current financial and economic world situation and the related problems. In general his delegation supported the main lines of the report and felt that, together with the policy statement just made by the Secretary-General of UNCTAD, it would contribute to the success of the detailed discussions at the current session of the Board. At present, financial and currency movements were working against the developing countries. They had made great efforts to open up their markets and to introduce economic reforms, often at great sacrifice to themselves, but, as was demonstrated in the TDR, their economies still encountered great difficulties due to a deterioration in external conditions and the persistence of protectionist measures. The international community would therefore need to make concerted efforts to solve the problems involved in the effective development of the developing countries, and especially the least developed countries. UNCTAD should align its dialogue process and the emerging political guidelines with the provisions of the Cartagena Commitment in order to formulate follow-up measures in favour of the developing countries. In this regard protectionist measures represented one of the most important areas for action. This work must be carried out in the spirit of Cartagena and must ensure fair treatment for all parties.

32. The representative of the Russian Federation noted that much important work had been done in the wake of UNCTAD VIII on implementing the decisions taken by the Conference: the terms of reference of the new Standing Committees and Ad Hoc Working Groups had been defined and these bodies would soon be holding their first sessions. As for the organizational changes that were being made in the secretariat, it was essential to adopt a balanced approach to ensure that there would be no negative effect on the high standard of work carried out by the secretariat, of which the TDR was a good example.

33. The world economy was facing difficult times and the TDR showed that the new phenomena had resulted in instability. There were some signs of growth, but the situation might change at any time and growth rates could deteriorate rapidly. The international markets were therefore watching closely government signals and major events, such as the recent upheaval in currency rates in Europe. The Russian Federation had itself experienced instability in its industrial production in 1991 and there had also been a drop in the level of investment. Such developments were of course inevitable in the process of transition to a market economy. Nevertheless, it was clear that in the past 10 months the concept of economic reform had taken tangible form in the Russian Federation, whereas previously it had been rather a matter for academic debate. Traditionally the question of economic reform in his country had focused on macro-economic reform, but this was no longer the only aim and priority was shifting to local reforms, privatization, restructuring of enterprises, expanding the openings for Russian exports on the world markets, attracting foreign investment and promoting import market intervention. In undertaking these reforms, the Russian Federation had received valuable help from foreign experts which was greatly appreciated.

34. Finally, he observed that the Cartagena Commitment reflected the specific conditions affecting countries in transition, which included his own country, and that the terms of reference of the newly-established subsidiary bodies of the Board and of the UNCTAD medium-term plan also included this concept. He therefore trusted that the new bodies of UNCTAD would take due account of the needs of the countries in transition.